

Dallas County Hospital
Perry, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2008 and 2007**

Together with Independent Auditor's Report

Dallas County Hospital

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Dallas County Hospital

Officials
June 30, 2008

Board of Trustees

Term Expires

| | | |
|-----------------------------------|-------------------------|-------------------|
| Marc Meyer, Chairman | Officer | December 31, 2010 |
| Christie Creighton, Vice-Chairman | Officer | December 31, 2008 |
| Harley Weyer, Secretary | Officer | December 31, 2010 |
| Rich Jones, Treasurer | Officer | December 31, 2008 |
| Marsha McClintock | Member | December 31, 2012 |
| Joelle Miner | Member | December 31, 2012 |
| Jeff Schulz | Member | December 31, 2008 |
| Laurie Conner | Chief Executive Officer | Indefinite |
| Sandra Christensen | Chief Financial Officer | Indefinite |
| Donna Vandehaar | Chief Clinical Officer | Indefinite |

Independent Auditor's Report

To the Board of Trustees of
Dallas County Hospital
Perry, Iowa:

We have audited the accompanying basic financial statements of Dallas County Hospital (Hospital), as of and for the years ended June 30, 2008 and 2007 as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Spring Valley, Inc. (Spring Valley), a component unit of Dallas County Hospital as of or for the years ended June 30, 2008 and 2007, for which the Hospital is the guarantor of the debt of Spring Valley. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Spring Valley is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dallas County Hospital as of June 30, 2008, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2008, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on page 3 through 8 and page 31 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
October 21, 2008.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2008 and 2007

As management of Dallas County Hospital (Hospital), we offer readers of the Hospital's financial statements this narrative overview and analysis of the financial performance of our hospital during the fiscal years ended June 30, 2008, 2007 and 2006. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements and supplementary information of the Hospital. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Hospital report information of the Hospital using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL HIGHLIGHTS

- Total assets increased by \$7,374,888 to \$28,407,333 in 2008, increased by \$1,448,188 to \$21,032,445 in 2007, following an decrease of \$371,235 to \$19,584,257 in 2006.
- Total assets limited as to use increased by \$241,669 in 2008, decreased by \$2,081,189 in 2007 and \$1,799,379 in 2006.
- Capital assets, net, decreased by 627,575 in 2008, increased by \$606,973 in 2007, and \$1,874,202 in 2006.
- Total debt decreased by \$607,391 in 2008, \$590,626 in 2007 and \$569,243 in 2006.
- Total net assets increased by \$3,934,691 in 2008 and \$1,250,476 in 2007, compared to a decrease by \$519,470 in 2006.
- Net patient service revenue increased by \$6,337,753 in 2008, by \$3,143,036 in 2007 and by \$534,732 in 2006, due to a combination of a full year of services at DCHOS, increased utilization and inflationary charge increases.
- Expenses increased by \$3,696,795 or 43.47% in 2008, by \$2,424,867 or 22.72% in 2007, and by \$1,233,649, or 13.07% in 2006 due to the opening of a hospital addition and miscellaneous other events. Increased expenses in 2008 relates to the increase in revenue from the surgery unit in West Des Moines. The 2008 increase in expenses is from a combination of increased revenue from DCHOS and increased utilization of services at the Perry location.
- Total margin for fiscal year 2008 was 30.51%, 2007 was 9.88%, compared to (.95%), for fiscal year 2006.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2008 and 2007

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheet and the statement of revenue, expenses, and changes in net assets report the net assets of the Hospital and the changes in them. The Hospital's net assets – the difference between assets and liabilities – are a way to measure financial health or financial position. Over time, sustained increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

NET ASSETS

A summary of the Hospital's balance sheets at June 30, 2008, 2007 and 2006, are presented in Table 1 below.

Table 1 - Condensed Balance Sheets

| | <u>June 30, 2008</u> | <u>June 30, 2007</u> | <u>June 30, 2006</u> | <u>2008 Change</u> |
|---|--------------------------|--------------------------|--------------------------|------------------------|
| Assets: | | | | |
| Current and other assets | \$ 17,633,432 | 9,630,969 | 8,789,754 | 83.09% |
| Capital assets, net | <u>10,773,901</u> | <u>11,401,476</u> | <u>10,794,503</u> | <u>-5.50%</u> |
| Total assets | <u>28,407,333</u> | <u>21,032,445</u> | <u>19,584,257</u> | <u>35.06%</u> |
| Liabilities: | | | | |
| Long-term debt outstanding | 2,520,000 | 3,075,131 | 3,682,494 | -18.05% |
| Other liabilities | <u>9,054,374</u> | <u>5,059,046</u> | <u>4,253,971</u> | <u>78.97%</u> |
| Total liabilities | <u>11,574,374</u> | <u>8,134,177</u> | <u>7,936,465</u> | <u>42.29%</u> |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 7,698,770 | 7,914,024 | 6,737,381 | -2.72% |
| Restricted for debt service and property and equipment | 890,769 | 584,810 | 509,955 | 52.32% |
| Unrestricted | <u>8,243,420</u> | <u>4,399,434</u> | <u>4,400,456</u> | <u>87.37%</u> |
| Total net assets | \$ <u>16,832,959</u> | <u>12,898,268</u> | <u>11,647,792</u> | <u>30.51%</u> |

As can be seen by Table 1, net assets increased by \$3,934,691 in 2008 and \$1,250,476 in 2007 while they decreased by \$519,470 to \$11,647,792 in fiscal year 2006. The change from 2006 to 2007 results primarily from the expansion of surgical services in February 2007. The increase from 2007 to 2008 is primarily due to a full year of operations with the expanded surgical services at DCHOS. Profits and temporary overpayments in interim rates from CMS have increased the DCH investments (CD's).

REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

The following table presents a summary of the Hospital's historical revenue and expenses for each of the fiscal years ended June 30, 2008, 2007 and 2006:

Dallas County Hospital

Management's Discussion and Analysis June 30, 2008 and 2007

Table 2 - Condensed Statements of Revenue, Expenses, and Changes in Net Assets

| | 2008 | 2007 | 2006 | 2008/2007 Change |
|---|----------------------|-------------------|-------------------|---------------------|
| Operating Revenue: | | | | |
| Net patient service revenue | \$ 18,676,709 | 12,338,956 | 9,195,920 | 51.36% |
| County tax revenue | 1,629,063 | 1,680,645 | 1,274,332 | (3.07)% |
| Other operating revenue | 224,007 | 289,728 | 366,543 | (22.68)% |
| Total operating revenue | 20,529,779 | 14,309,329 | 10,836,795 | 43.47% |
| Operating Expenses: | | | | |
| Salaries | 4,269,334 | 3,674,446 | 3,475,768 | 16.19% |
| Employee benefits | 860,479 | 945,391 | 659,921 | (8.98)% |
| Professional fees | 3,671,522 | 3,011,709 | 2,510,930 | 21.91% |
| Supplies and other | 6,794,354 | 4,308,175 | 3,013,014 | 57.71% |
| Depreciation and amortization | 1,200,245 | 1,159,418 | 1,014,639 | 3.52% |
| Total operating expenses | 16,795,934 | 13,099,139 | 10,674,272 | 28.22% |
| Operating Income | 3,733,845 | 1,210,190 | 162,523 | 208.53% |
| Nonoperating Revenue (Expenses), Net: | | | | |
| Rental property, net | 40,549 | 9,896 | (9,091) | 309.75% |
| Investment income | 334,574 | 200,572 | 243,738 | 66.81% |
| Provision for bad debt, Spring Valley receivable | - | -- | (500,000) | -- |
| Gain (loss) on disposal of capital assets | (185,287) | -- | 1 | -- |
| Other nonoperating revenue and expenses, net | (41,027) | (6,500) | -- | -- |
| Nonoperating revenue (expense), net | 148,809 | 203,968 | (265,352) | 27.04% |
| Excess of Revenue Over (Under) Expenses Before Transfers to Foundation | 3,882,654 | 1,414,158 | (102,829) | 174.56% |
| Capital Grants and Contributions | 90,950 | 235,673 | -- | (61.41)% |
| Transfers to Foundation and Spring Valley | (38,913) | (399,355) | (416,641) | (90.26)% |
| Increase (Decrease) in Net Assets | 3,934,691 | 1,250,476 | (519,470) | 214.66% |
| Net Assets, beginning of year | 12,898,268 | 11,647,792 | 12,167,262 | 10.74% |
| Net Assets, end of year | \$ 16,832,959 | 12,898,268 | 11,647,792 | 30.51% |

Dallas County Hospital

Management's Discussion and Analysis June 30, 2008 and 2007

Operating and Financial Performance

- **Volume:** Acute inpatient discharges for fiscal year 2008 were 334 compared to 232 in fiscal year 2007. Acute patient days increased dramatically in conjunction with the increase in discharges. Acute patient days increased from 703 in 2007 to 1177 in 2008 or 67.43%. Swing bed discharges increased by 45.16% for fiscal year 2008 to a total of 135 discharges. Outpatient visits increased by 23.89% to 28,462 visits in fiscal year 2008. The following departments did experience increases in volumes for fiscal year 2008: Ultrasound, CT, Echocardiology, Cardiopulmonary, Radiology, Lab and Therapy Services. DCHOS experienced increased volumes from the first full year of operations in fiscal year 2008.
- **Net Patient Service Revenue:** Due to an average rate increase of 5% effective July 1, 2007, a full year of surgery services at DCHOS, and the type of procedures that saw an increase in volumes as discussed above, net patient service revenue climbed by \$6,337,753, or 51.36% compared to fiscal year 2007. During the fiscal year, Dallas County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payers) increased by \$7,251,919. Contractual allowances as a percentage of gross patient revenue increased to 34.94% of gross charges in 2008 compared to 20.87% in 2007. The increase in contractual is primarily due to the increased revenue and procedures volumes from DCHOS, which has lowered the cost per procedure/visit from Medicare and Medicaid reimbursement.

Changes in Net Assets: In fiscal year 2008, \$38,913 was transferred to Spring Valley, Inc., compared to \$399,355 in 2007. These amounts are considered to be a transfer of equity to this related organization.

The following table presents the relative percentages of gross charges for patient services by payer for the years ended June 30, 2008, 2007 and 2006:

Table 3 - Payor Mix by Percentage

| | June 30 | | |
|----------------------------|---------|---------|---------|
| | 2008 | 2007 | 2006 |
| Medicare | 50.10% | 49.50% | 52.60% |
| Blue Cross (Wellmark) | 19.30% | 17.10% | 16.20% |
| Medicaid | 6.10% | 8.80% | 7.90% |
| Private Pay | 2.90% | 2.70% | 4.70% |
| Other commercial insurance | 21.60% | 21.90% | 18.60% |
| Total | 100.00% | 100.00% | 100.00% |

Significant changes in operations from fiscal year 2008:

- **Other Operating Revenue:** Fiscal year 2008 showed a decrease of \$65,721 in other operating revenue. A decrease in the provision of meals to Spring Valley Retirement and the Child Day Care and grant revenue make up the majority of the total decrease in other revenue. The meal service was discontinued in mid-year of the 2006-07FY.
- **Salary Expense:** Salary expense increased \$594,888 or 16.19%. Salary expense constitutes 25.42% of total expenses in 2008. The increase is due in part to market adjustments, full year of staffing at DCHOS and the addition of an officer and staffing in key service areas. With this organization being in close proximity to the Des Moines Metropolitan area and the continued increase in regulatory requirements, the Hospital continues to adjust wages to retain and attract talented and qualified staff plus have adequate support staff to monitor and administer regulations to remain compliant with State and Federal guidelines.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2008 and 2007

- **Professional Fees:** Fiscal year 2008 showed an increase of \$659,813 or 21.91% increase in professional fees. A couple of primary reasons for this increase are a full year of DCHOS (leased staffing and management fees), Radiology staffing became leased staff and the CR-PACS system was installed, and the increase in fees associated with the increased revenue in fee for services areas such as Echocardiology and Therapy Services.
- **Depreciation and Amortization:** Fiscal year 2008 showed an increase in depreciation due to the hospital remodeling project completion and the addition of CR-PACS system.
- **Other Expenses:** Fiscal year 2008 showed an increase in other expense due to a full year of lease expense for DCHOS.
- **Supplies:** Increase in supply expense is in relation to the increased revenue in both Inpatient and outpatient services for fiscal year 2008. The growth in outpatient services was both at the Perry location and the DCHOS location in Southern Dallas County.

CAPITAL ASSETS

At the end of fiscal year 2008, the Hospital has invested a total of \$561,887 in capital assets. Equipment and the completion of the hospital remodel were purchased. The hospital demolished an unused medical office building. A loss from disposal of \$186,287 was recorded for un-depreciated value of the building and related fixed equipment.

At the end of fiscal year 2007, the Hospital has invested a total of \$1,940,183 in capital assets. Equipment, building and fixed equipment were purchased to remodel the original 1950's Perry facility.

The following table summarizes the Hospital's capital assets as of June 30, 2008, 2007 and 2006:

Table 4 - Capital Assets

| | June 30, 2008 | June 30, 2007 | June 30, 2006 | 2008 Change |
|-----------------------------------|------------------|------------------|------------------|----------------|
| Land | \$ 69,523 | 69,523 | 69,523 | - |
| Land Improvements | 384,892 | 384,892 | 384,892 | - |
| Buildings | 5,860,096 | 5,861,271 | 5,861,271 | (1,175) |
| Building service equipment | 8,437,977 | 8,382,394 | 3,231,841 | 55,583 |
| Fixed equipment | 833,495 | 566,858 | 498,313 | 266,637 |
| Major moveable equipment | 6,311,909 | 5,894,766 | 5,627,149 | 417,143 |
| Construction in progress | 50,579 | 229,133 | 3,960,452 | (178,554) |
| Subtotal | 21,948,471 | 21,388,837 | 19,633,441 | 559,634 |
| Less accumulated depreciation | 11,174,570 | 9,987,361 | 8,838,938 | 1,187,209 |
| Property plant and equipment, net | \$ 10,773,901 | 11,401,476 | 10,794,503 | (627,575) |

Dallas County Hospital

Management's Discussion and Analysis June 30, 2008 and 2007

DEBT ADMINISTRATION

Long-Term Debt

At year-end, the Hospital had \$2,995,000 in short- and long-term debt related to Hospital Revenue Bonds and Notes. This has decreased from \$3,450,000 in fiscal year 2007. The outstanding debt for capital equipment leases at the end of fiscal year 2008 was \$80,131. This decreased by \$152,391 in fiscal year 2008, which was the amount of principal payments on this debt. More detailed information about the Hospital's outstanding debt is presented in the Notes to the Financial Statements. Note that total debt represents 18% of the Hospital's equity as of year-end 2008. This is a decrease from 28% in 2007.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at Dallas County Hospital, 610 10th Street, Perry, Iowa 50220. Phone number 515-465-3547.

Dallas County Hospital

Balance Sheets

June 30, 2008 and 2007

| | 2008 | 2007 |
|--|---------------|------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,157,232 | 746,879 |
| Short term investments | 7,655,560 | 1,138,608 |
| Assets limited as to use - required for current liabilities | 437,796 | 88,860 |
| Receivables - | | |
| Patient, net of allowance for doubtful accounts of \$692,866 in 2008 and \$334,720 in 2007 | 3,072,290 | 2,247,412 |
| Other | 162,804 | 83,860 |
| Succeeding year property tax | 1,658,688 | 1,653,695 |
| Inventories | 528,229 | 436,989 |
| Prepaid expenses | 122,456 | 82,675 |
| Total current assets | 14,795,055 | 6,478,978 |
| Assets limited as to use, net of current portion | | |
| By board for capital improvements | 2,306,309 | 2,413,576 |
| By trustee for debt service | 430,000 | 430,000 |
| Capital assets, net | 10,773,901 | 11,401,476 |
| Deferred financing costs, net | 102,068 | 113,345 |
| Rental property, net | -- | 195,070 |
| Total assets | \$ 28,407,333 | 21,032,445 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 555,131 | 607,391 |
| Accounts payable - | | |
| Trade | 665,757 | 733,451 |
| Construction | 256,918 | 473,497 |
| Salaries, wages and accrued vacation payable | 495,754 | 405,166 |
| Payroll taxes withheld | 223,789 | 121,325 |
| Accrued interest payable | 12,890 | 14,221 |
| Estimated third-party payor settlements - Medicare and Medicaid | 4,950,152 | 881,000 |
| Deferred revenue - previous years' property taxes | 235,295 | 169,300 |
| Total current liabilities | 7,395,686 | 3,405,351 |
| Deferred revenue for succeeding year property tax receivable | 1,658,688 | 1,653,695 |
| Long-term debt, net of current maturities | 2,520,000 | 3,075,131 |
| Total liabilities | 11,574,374 | 8,134,177 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 7,698,770 | 7,914,024 |
| Restricted - | | |
| Debt service | 867,796 | 518,860 |
| Expendable for property and equipment | 22,973 | 65,950 |
| Unrestricted | 8,243,420 | 4,399,434 |
| Total net assets | 16,832,959 | 12,898,268 |
| Total liabilities and net assets | \$ 28,407,333 | 21,032,445 |

See notes to financial statements

Dallas County Hospital

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|--|---------------|------------|
| OPERATING REVENUE: | | |
| Net patient service revenue before provision for bad debt | \$ 19,707,813 | 13,006,439 |
| Provision for bad debt | (1,031,104) | (667,483) |
| Net patient service revenue | 18,676,709 | 12,338,956 |
| County tax revenue | 1,629,063 | 1,680,645 |
| Other operating revenue | 224,007 | 289,728 |
| Total operating revenue | 20,529,779 | 14,309,329 |
| OPERATING EXPENSES: | | |
| Salaries | 4,269,334 | 3,674,446 |
| Employee benefits | 860,479 | 945,391 |
| Professional fees | 3,671,522 | 3,011,709 |
| Utilities | 857,753 | 563,597 |
| Supplies | 3,591,127 | 2,065,663 |
| Repairs, maintenance and small equipment | 639,245 | 469,096 |
| Depreciation and amortization | 1,200,245 | 1,159,418 |
| Insurance | 198,104 | 175,806 |
| Interest | 182,188 | 194,949 |
| Other | 1,325,937 | 839,064 |
| Total operating expenses | 16,795,934 | 13,099,139 |
| OPERATING INCOME | 3,733,845 | 1,210,190 |
| NONOPERATING REVENUE (EXPENSE), NET: | | |
| Rental property, net | 40,549 | 9,896 |
| Investment income | 334,574 | 200,572 |
| Loss on disposal of capital assets | (185,287) | -- |
| Other nonoperating expense, net | (41,027) | (6,500) |
| Nonoperating revenue, net | 148,809 | 203,968 |
| EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS | 3,882,654 | 1,414,158 |
| CAPITAL GRANTS AND CONTRIBUTIONS | 90,950 | 235,673 |
| TRANSFERS TO FOUNDATION AND SPRING VALLEY | (38,913) | (399,355) |
| INCREASE IN NET ASSETS | 3,934,691 | 1,250,476 |
| NET ASSETS, beginning of year | 12,898,268 | 11,647,792 |
| NET ASSETS, end of year | \$ 16,832,959 | 12,898,268 |

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows

For the Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|--|---------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from patients and third party payors | \$ 21,920,983 | 12,182,776 |
| Cash paid to employees for salaries and benefits | (4,936,761) | (4,563,633) |
| Cash paid to suppliers and contractors | (10,482,403) | (7,041,169) |
| Other receipts and payments, net | 111,488 | 337,641 |
| Net cash provided by operating activities | 6,613,307 | 915,615 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES, | | |
| County taxes received | 1,687,606 | 1,471,597 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of capital assets, net | (777,972) | (1,960,630) |
| Principal paid on long-term debt | (607,391) | (590,626) |
| Proceeds from line of credit | -- | 375,000 |
| Payments on line of credit | -- | (375,000) |
| Interest paid on long-term debt | (183,519) | (196,214) |
| Capital grants and contributions | 90,950 | 235,673 |
| Net cash used in capital and related financing activities | (1,477,932) | (2,511,797) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Deposits to short term investments | (6,516,952) | (1,108,963) |
| (Deposits to) withdrawals from assets limited as to use, net | (173,919) | 2,012,384 |
| Investment income | 266,824 | 239,732 |
| Cash received from rental property, net | 50,332 | 30,851 |
| Transfers to Foundation and Spring Valley | (38,913) | (399,355) |
| Net cash provided by (used in) investing activities | (6,412,628) | 774,649 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 410,353 | 650,064 |
| CASH AND CASH EQUIVALENTS - Beginning of year | 746,879 | 96,815 |
| CASH AND CASH EQUIVALENTS - End of year | \$ 1,157,232 | 746,879 |

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|----------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | \$ 3,733,845 | 1,210,190 |
| Adjustments to reconcile operating income to net cash provided by operating activities - | | |
| County tax revenue | (1,629,063) | (1,680,645) |
| Other nonoperating expense, net | (41,027) | (6,500) |
| Depreciation and amortization | 1,200,245 | 1,159,418 |
| Interest expense included in operating expenses | 182,188 | 194,949 |
| (Increase) decrease in current assets - | | |
| Receivables - | | |
| Patients | (824,878) | (867,092) |
| Other | (71,492) | 54,413 |
| Inventories | (91,240) | (184,208) |
| Prepaid expenses | (39,781) | 48,853 |
| Increase (decrease) in current liabilities - | | |
| Accounts payable | (67,694) | 219,121 |
| Salaries, wages and accrued vacation payable | 90,588 | 30,369 |
| Accrued payroll taxes and other | 102,464 | 25,835 |
| Estimated third-party payor settlements - Medicare and Medicaid | <u>4,069,152</u> | <u>710,912</u> |
| Net cash provided by operating activities | \$ <u>6,613,307</u> | <u>915,615</u> |

See notes to financial statements

Spring Valley, Inc.
(A Component Unit of Dallas County Hospital)

Statements of Financial Position
June 30, 2008 and 2007

| | June 30 | |
|--|----------------------------|-------------------------|
| | 2008 | 2007 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 51,372 | 56,711 |
| Other receivables | 10,940 | 7,082 |
| Prepaid expenses | 4,102 | 2,496 |
| Total current assets | <u>66,414</u> | <u>66,289</u> |
| RESTRICTED CASH | | |
| Bond fund | 121,520 | 179,029 |
| Debt service reserve fund | 391,266 | 392,925 |
| Repair and replacement fund | 45,513 | 37,128 |
| Total restricted cash | <u>558,299</u> | <u>609,082</u> |
| PROPERTY AND EQUIPMENT | | |
| Spring Valley Retirement Facility | 4,906,639 | 4,890,904 |
| Less accumulated depreciation and amortization | <u>1,554,193</u> | <u>1,340,874</u> |
| Total property and equipment | <u>3,352,446</u> | <u>3,550,030</u> |
| OTHER ASSET | | |
| Deferred debt issue costs, net of accumulated amortization | <u>147,355</u> | <u>164,196</u> |
| Total assets | <u><u>\$ 4,124,514</u></u> | <u><u>4,389,597</u></u> |
| LIABILITIES AND NET (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$ 125,000 | 120,000 |
| Accounts payable | 59,591 | 30,830 |
| Accrued payroll | 16,016 | 17,112 |
| Deposits | 37,050 | 36,150 |
| Accrued interest | 88,467 | 90,746 |
| Unearned rent revenue | 605 | -- |
| Total current liabilities | <u>326,729</u> | <u>294,838</u> |
| LONG-TERM DEBT , less current maturities | <u>4,475,000</u> | <u>4,600,000</u> |
| NET (DEFICIT) | | |
| Unrestricted | <u>(677,215)</u> | <u>(505,241)</u> |
| Total liabilities and net (deficit) | <u><u>\$ 4,124,514</u></u> | <u><u>4,389,597</u></u> |

See notes to financial statements.

Spring Valley, Inc.
(A Component Unit of Dallas County Hospital)

Statements of Activities
For the Years Ended June 30, 2008 and 2007

| | June 30 | |
|--|---------------------|------------------|
| | 2008 | 2007 |
| CHANGES IN UNRESTRICTED NET ASSETS | | |
| Revenues | | |
| Contributions and grants | \$ 100 | 3,077 |
| Rental income | | |
| Assisted and independent living units | 1,008,802 | 1,002,661 |
| Garage, guest room and other | 33,946 | 21,387 |
| Meal income | 3,023 | 1,775 |
| Investment return | 18,913 | 26,059 |
| Total unrestricted revenues | <u>1,064,784</u> | <u>1,054,959</u> |
| Expenses | | |
| Program services | | |
| Salaries | 374,805 | 401,326 |
| Fringe benefits and payroll taxes | 69,571 | 70,848 |
| Meals | 52,522 | 66,210 |
| Total program services | <u>496,898</u> | <u>538,384</u> |
| Supporting services | | |
| Administration and general | 79,724 | 84,704 |
| Management fee | 52,500 | 52,500 |
| Property taxes | 30,000 | 30,000 |
| Rent expense | 7,700 | 7,700 |
| Operation of plant | 105,511 | 113,626 |
| Depreciation and amortization | 230,160 | 250,867 |
| Total supporting services | <u>505,595</u> | <u>539,397</u> |
| Interest | <u>273,178</u> | <u>276,533</u> |
| Total expenses | <u>1,275,671</u> | <u>1,354,314</u> |
| | <u>(210,887)</u> | <u>(299,355)</u> |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS | | |
| Net assets transfers - Dallas County Hospital Foundation, Inc. | -- | (14,298) |
| Increase (decrease) in temporarily restricted net assets | <u>--</u> | <u>(14,298)</u> |
| (DECREASE) IN NET ASSETS BEFORE FORGIVENESS OF DEBT AND NET ASSET TRANSFERS | (210,887) | (313,653) |
| FORGIVENESS OF DEBT - DALLAS COUNTY HOSPITAL | 38,913 | 393,269 |
| NET ASSET TRANSFERS - DALLAS COUNTY HOSPITAL FOUNDATION, INC. | <u>--</u> | <u>(50,338)</u> |
| INCREASE (DECREASE) IN NET (DEFICIT) | (171,974) | 29,278 |
| NET (DEFICIT) | | |
| Beginning | <u>(505,241)</u> | <u>(534,519)</u> |
| Ending | <u>\$ (677,215)</u> | <u>(505,241)</u> |

See notes to financial statements.

Spring Valley, Inc.
(A Component Unit of Dallas County Hospital)

Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

| | June 30 | |
|---|-------------------|------------------|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease in net (deficit) | \$ (171,974) | 29,278 |
| Adjustments to reconcile change in net (deficit) to net cash provided by operating activities | | |
| Depreciation and amortization | 230,160 | 250,867 |
| Transfer of net assets, net of changes in assets and liabilities | -- | 33,185 |
| Change in assets and liabilities, net of transfer of assets | | |
| Decrease in contributions receivable | -- | 3,340 |
| (Increase) in prepaid expenses | (1,606) | (2,496) |
| Decrease in interest receivable | -- | 10,959 |
| (Increase) in other receivable | (3,858) | (5,799) |
| Increase in accounts payable, net of amounts for property and equipment | 21,241 | 10,787 |
| (Decrease in accounts payable, related party | -- | (101,543) |
| Increase (decrease) in accrued payroll | (1,096) | 12,187 |
| Increase in deposits | 900 | 1,050 |
| (Decrease) in accrued interest payable | (2,279) | (2,147) |
| Increase in unearned rent revenue | 605 | -- |
| Net cash provided by operation activities | <u>72,093</u> | <u>239,668</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Liquidation (funding) of bond fund | 57,509 | (46,959) |
| Liquidation of debt service reserve fund | 1,659 | 13,427 |
| (Funding) of repair and replacement fund | (8,385) | (9,107) |
| Purchase of property and equipment | <u>(8,215)</u> | <u>(128,076)</u> |
| Net cash provided by (used in) investing activities | <u>42,568</u> | <u>(170,715)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on long-term borrowings | <u>(120,000)</u> | <u>(115,000)</u> |
| NET (DECREASE) IN CASH | (5,339) | (46,047) |
| CASH | | |
| Beginning | <u>56,711</u> | <u>102,758</u> |
| Ending | <u>\$ 51,372</u> | <u>56,711</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the year for interest | <u>\$ 275,457</u> | <u>278,680</u> |

See notes to financial statements.

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and is a summary of significant accounting policies of Dallas County Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a county public hospital organized under Chapter 347, of the Code of Iowa, and governed by a seven member Board of Trustees elected for terms of six years.

A. Reporting Entity

For financial reporting purposes, Dallas County Hospital has included all the funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal year ended June 30, 2008, the Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Spring Valley, Inc. (Spring Valley). Spring Valley's financial statements are separately presented on pages 13 – 15.

These financial statements present the Hospital and Spring Valley (its component unit). Certain disclosures about Spring Valley are not included because Spring Valley has been audited separately and a report has been issued under separate cover.

B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. Basis of Presentation

The Balance Sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two precede categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by bond indenture agreements.

G. Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Dallas County Hospital

Notes to Financial Statements

June 30, 2008 and 2007

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of the year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

I. *Assets Limited as to Use*

By Board of Trustees – Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

By Trustee for Debt Service – These funds are used for the payment of principal and interest on the bonds and notes and to provide funds to finance a facility expansion and improvement project to the existing Hospital facilities.

J. *Capital Assets*

The Hospital's capital assets are recorded at historical cost. Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line half-year method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

| | |
|-------------------------------|--------------|
| Land improvements | 5 – 20 years |
| Buildings and fixed equipment | 5 – 40 years |
| Major moveable equipment | 3 – 25 years |

K. *Deferred Financing Costs*

Deferred financing costs related to the issuance of the Hospital Revenue Bonds and Notes Series 2002 and 2004 are being amortized over the life of the related debt on a straight-line basis. Amortization expense of \$11,277 and \$10,995 for 2008 and 2007, respectively, is included in the accompanying statements of revenue, expenses and changes in net assets.

Dallas County Hospital

Notes to Financial Statements

June 30, 2008 and 2007

L. Compensated Absences

Employees of the Hospital earn annual Paid Time Off (PTO) at various specific rates during their period of employment. PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent they are paid during the year and the vested amount is recorded as a current liability.

M. Deferred Revenue

Deferred revenue consists of property taxes received but not spent.

N. Investments and Investment Income

All investments in debt securities are measured at fair value in the balance sheet. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenue over expenses unless the income is restricted by donor or law.

O. Statements of Revenue, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses.

P. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Q. Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

R. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of these amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

S. *Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Central Iowa Hospital Corporation in Des Moines, Iowa. Effective July 1, 2008, Mercy Medical Center-Des Moines in Des Moines, Iowa will provide management services to the Hospital.

T. *Reclassification*

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 reporting format.

(2) **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2005.

Medicaid – Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

(3) **Cash and Investments**

The Hospital's deposits in banks at June 30, 2008 and 2007 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

The Hospital's investments are carried at fair value. As of June 30, 2008 and 2007, the Hospital's investments, including assets limited as to use, consisted of the following:

| | <u>2008</u> | <u>2007</u> |
|-----------------------------|----------------------|------------------|
| Cash and money market funds | \$ 2,917,715 | 2,593,668 |
| Certificates of deposit | 7,765,023 | 1,298,761 |
| US government securities | -- | 99,438 |
| Accrued interest receivable | <u>146,927</u> | <u>79,177</u> |
| | <u>\$ 10,829,665</u> | <u>4,071,044</u> |

The carrying value of investments, including assets limited as to use, shown above are included in the accompanying balance sheets as follows:

By Board for Capital Improvements:

| | <u>2008</u> | <u>2007</u> |
|-----------------------------|---------------------|------------------|
| Cash and money market funds | \$ 150,456 | 1,366,200 |
| Certificates of deposit | 2,008,926 | 868,761 |
| US government securities | -- | 99,438 |
| Accrued interest receivable | <u>146,927</u> | <u>79,177</u> |
| | <u>\$ 2,306,309</u> | <u>2,413,576</u> |

By Trustee for Debt Service:

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|-----------------|
| Cash and money market funds | \$ 437,796 | 88,860 |
| Certificates of deposit | <u>430,000</u> | <u>430,000</u> |
| | 867,796 | 518,860 |
| Less amounts required for current obligations | <u>(437,796)</u> | <u>(88,860)</u> |
| | <u>\$ 430,000</u> | <u>430,000</u> |

In connection with the issuance of Dallas County Hospital, Hospital Revenue Bonds/Notes, Series 2004 and 2002, the Hospital is required to maintain the following funds:

Sinking Fund – Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment.

Debt Service Reserve Fund – Established for the deposit of the amount of the Debt Service Reserve Fund requirement on the date of issuance of the Series 2004 and 2002 Bonds/Notes.

Credit Risk: The Hospital has invested in government obligations. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

Interest Rate Risk: The primary objectives of the Hospital's investment policy is to assure preservation of capital through investments in government insured vehicles, to retain liquidity to meet projected cash needs, and to realize the best available to rate of return.

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

(4) Capital Assets

Capital assets activity for the years ended June 30, 2008 and 2007 were as follows:

| | June 30, 2007 | Additions | Transfers and Disposals | June 30, 2008 |
|--|------------------|-------------|----------------------------|------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 69,523 | -- | -- | 69,523 |
| Construction in progress | 229,133 | 140,618 | (319,172) | 50,579 |
| Total capital assets, not being depreciated | 298,656 | 140,618 | (319,172) | 120,102 |
| Capital assets, being depreciated: | | | | |
| Land Improvements | 384,892 | -- | -- | 384,892 |
| Buildings and fixed equipment | 14,810,523 | 156,153 | 164,892 | 15,131,568 |
| Major moveable equipment | 5,894,766 | 265,116 | 152,027 | 6,311,909 |
| Total capital assets, being depreciated | 21,090,181 | 421,269 | 316,919 | 21,828,369 |
| Less accumulated depreciation: | | | | |
| Land Improvements | (364,804) | (2,494) | -- | (367,298) |
| Buildings and fixed equipment | (5,074,904) | (602,809) | 1,759 | (5,675,954) |
| Major moveable equipment | (4,547,653) | (583,665) | -- | (5,131,318) |
| Total accumulated depreciation | (9,987,361) | (1,188,968) | 1,759 | (11,174,570) |
| Total capital assets, being depreciated, net | 11,102,820 | (767,699) | 318,678 | 10,653,799 |
| Total capital assets, net | \$ 11,401,476 | (627,081) | (494) | 10,773,901 |
| | June 30, 2006 | Additions | Transfers and Disposals | June 30, 2007 |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 69,523 | -- | -- | 69,523 |
| Construction in progress | 3,960,452 | 1,642,225 | (5,373,544) | 229,133 |
| Total capital assets, not being depreciated | 4,029,975 | 1,642,225 | (5,373,544) | 298,656 |
| Capital assets, being depreciated: | | | | |
| Land Improvements | 384,892 | -- | -- | 384,892 |
| Buildings and fixed equipment | 9,591,425 | 49,333 | 5,169,765 | 14,810,523 |
| Major moveable equipment | 5,627,149 | 248,625 | 18,992 | 5,894,766 |
| Total capital assets, being depreciated | 15,603,466 | 297,958 | 5,188,757 | 21,090,181 |
| Less accumulated depreciation: | | | | |
| Land Improvements | (360,465) | (4,339) | -- | (364,804) |
| Buildings and fixed equipment | (4,612,024) | (462,880) | -- | (5,074,904) |
| Major moveable equipment | (3,866,449) | (681,204) | -- | (4,547,653) |
| Total accumulated depreciation | (8,838,938) | (1,148,423) | -- | (9,987,361) |
| Total capital assets, being depreciated, net | 6,764,528 | (850,465) | 5,188,757 | 11,102,820 |
| Total capital assets, net | \$ 10,794,503 | 791,760 | (184,787) | 11,401,476 |

Depreciation expense of \$1,188,968 and \$1,148,423 in 2008 and 2007, respectively, is included in the accompanying statements of revenue, expenses and change in net assets.

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

(5) Rental Property

The Hospital owned a doctor's clinic located in Perry, Iowa. The clinic was valued at the Hospital's cost net of accumulated depreciation prior to its disposal in 2008.

| | 2008 | 2007 |
|-------------------------------|-------|-----------|
| Land and land improvements | \$ -- | 844 |
| Buildings and fixed equipment | -- | 1,084,894 |
| | -- | 1,085,738 |
| Less accumulated depreciation | -- | 890,668 |
| Rental property, net | \$ -- | 195,070 |

Rental income related to the clinic building above (2007 only) and specialty clinic space of the Hospital are reported net of related expense under nonoperating revenue, net in the statements of revenue, expenses and changes in net assets.

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2008 and 2007 consisted of the following:

| | June 30, 2007 | Borrowings | Payments | June 30, 2008 | Due Within One Year |
|--------------------------------|------------------|------------|----------|------------------|------------------------|
| Bonds payable, Series 2002 (A) | \$ 2,785,000 | -- | 130,000 | 2,655,000 | 135,000 |
| Notes payable, Series 2004 (B) | 665,000 | -- | 325,000 | 340,000 | 340,000 |
| Capital lease obligation (C) | 232,522 | -- | 152,391 | 80,131 | 80,131 |
| | \$ 3,682,522 | -- | 607,391 | 3,075,131 | 555,131 |

| | June 30, 2006 | Borrowings | Payments | June 30, 2007 | Due Within One Year |
|--------------------------------|------------------|------------|----------|------------------|------------------------|
| Bonds payable, Series 2002 (A) | \$ 2,910,000 | -- | 125,000 | 2,785,000 | 130,000 |
| Notes payable, Series 2004 (B) | 985,000 | -- | 320,000 | 665,000 | 325,000 |
| Capital lease obligation (C) | 378,148 | -- | 145,626 | 232,522 | 152,391 |
| Line of credit (D) | -- | 375,000 | 375,000 | -- | -- |
| | \$ 4,273,148 | 375,000 | 965,626 | 3,682,522 | 607,391 |

- (A) The Board of Trustees adopted a resolution to issue a \$3,360,000 Hospital Revenue Bonds Series 2002 dated July 1, 2002, to finance a facility expansion and improvement project. The bonds are payable in annual installments ranging from \$135,000 to \$265,000 through June 2022 with interest payable semiannually at 4.50% to 5.90%. The Bond resolution requires, among other things, the establishment of a "Debt Service Reserve Fund" (the Reserve Fund) to be held by the issuer for the purpose of paying principal and interest on the Bonds when sufficient moneys are unavailable in the "Principal and Interest Sinking Fund" (the Sinking Fund) into which the loan repayments are deposited in order to pay the principal and interest on the Bonds. A balance of \$280,000 must be maintained in the Reserve Fund.

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

- (B) The Board of Trustees adopted a resolution to issue a \$1,500,000 Hospital Revenue Notes Series 2004 dated October 14, 2004, to finance a facility expansion and improvement project and a Health Information System. The Notes are payable in annual installments of \$340,000 through June 2009, with interest payable semiannually at 3.65%. The Notes resolution requires, among other things the establishment of a "Debt Service Reserve Fund" (the Reserve Fund) to be held by the issuer for the purpose of paying principal and interest on the Notes when sufficient monies are unavailable in the "Principal and Interest Sinking Fund" (the Sinking Fund) into which the loan repayments are deposited in order to pay the principal and interest on the Notes. A balance of \$150,000 must be maintained in the Reserve Fund.
- (C) The Hospital has entered into two agreements to acquire medical equipment under capital leases. The obligation under the first lease calls for monthly installments of \$8,421 through November 2008, including interest at a rate of 4.53%. The obligation under the second lease calls for monthly installments of \$4,894 through February 2009, including interest at 4.51%. The total amount capitalized under the leases is \$716,400 with related accumulated amortization of \$644,760 at June 30, 2008.
- (D) The Hospital entered into an agreement for a line of credit with Liberty Bank in an amount not to exceed \$532,000 at any one time through May 2007. The Hospital has no lines of credit available as of June 30, 2008 and 2007.

Annual debt service requirements related to the long-term debt is as follows:

| Year | Capital Lease Obligations | | |
|------|---------------------------|----------|--------|
| | Principal | Interest | Totals |
| 2009 | \$ 80,131 | 1,128 | 81,259 |

| Year | Revenue Bonds/Notes Payable | | |
|-------------|-----------------------------|------------------|------------------|
| | Principal | Interest | Totals |
| 2009 | \$ 475,000 | 155,135 | 630,135 |
| 2010 | 140,000 | 136,650 | 276,650 |
| 2011 | 145,000 | 130,070 | 275,070 |
| 2012 | 155,000 | 123,038 | 278,038 |
| 2013 | 160,000 | 115,288 | 275,288 |
| 2014 - 2018 | 950,000 | 441,037 | 1,391,037 |
| 2019 - 2022 | 970,000 | 145,870 | 1,115,870 |
| | <u>\$ 2,995,000</u> | <u>1,247,088</u> | <u>4,242,088</u> |

Under the terms of the Hospital Revenue Bonds/Notes, the Hospital is required to maintain certain funds which are included in the assets limited as to use or restricted in the accompanying financial statements.

A summary of interest expense on borrowed funds during the years ended June 30, 2008 and 2007 follows:

| | 2008 | 2007 |
|----------------|-------------------|----------------|
| Interest cost: | | |
| Capitalized | \$ -- | 12,517 |
| Expensed | 182,188 | 194,949 |
| | <u>\$ 182,188</u> | <u>207,466</u> |

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

(7) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$4,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. The Hospital could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained or should coverage be limited and/or not available.

The Hospital is not aware of any known claims or incidents that may be asserted from services to patients. The Hospital has also evaluated its paid claims history and has determined that no reserve for losses on both asserted or unasserted claims is needed.

(8) Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines Iowa 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the Hospital is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008, and plan members were required to contribute 3.70% of their annual salary and the Hospital was required to contribute 5.75% for the years ended June 30, 2007 and 2006. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$247,259, \$208,576 and \$203,730, respectively, equal to the required contributions for each year.

(9) Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(10) Operating Leases

South Building Addition

The Hospital leases 23,734 rentable square feet (74.99%) of an attached building on the Hospital's campus under a 164 month non-cancelable operating lease. The monthly lease payments for the operating lease are minimum monthly payments of \$29,468 through the first five years, and then adjusted for each succeeding five year period by a CPI adjustment as defined in the lease, not to exceed a 5% increase. Rental expense for the operating lease was \$310,463 and \$306,540 for the years ended June 30, 2008 and 2007, respectively.

Dallas County Hospital Outpatient Surgery

During 2006, the Hospital entered into a lease agreement (Lease Agreement) with Clinic Investments, Inc. (Lessor), commencing in February 2007, for a Medical Office Building (Unit) located in West Des

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

Moines, Iowa, for the purpose of operating a provider-based outpatient surgical services facility in West Des Moines, Dallas County, Iowa (DCH outpatient surgery). Lease payments are established in accordance with the lease document of the Unit and shall be fixed for the initial five-year term of the lease. Upon attainment of the second anniversary of the lease commencement date, Lessor has the right to terminate the lease agreement without cause by giving 90 days of proper notice. At such time the lease agreement is terminated, the Hospital will no longer be obligated as Lessee of the Unit. Rental expense for the operating lease was \$345,879 and \$127,557 for the years ended June 30, 2008 and 2007, respectively.

In conjunction with the Lease Agreement, the Hospital has also entered into equipment leases for equipment needed to provide services at the Unit. Commencement of the equipment leases are simultaneous with the terms of the Lease Agreement. Lease payments are established in accordance with the lease document and shall be fixed for the initial five-year term of the lease. However, the lessor has the right to terminate these equipment leases simultaneously with the Lease Agreement disclosed in the previous paragraph. Rental expense for the operating lease was \$199,663 and \$72,355 for the years ended June 30, 2008 and 2007, respectively.

In addition, the Hospital has also entered into a management agreement for the purposes of rendering management and administrative services needed for the operations of the Unit. Commencement of the management agreement is simultaneous with the terms of the Lease Agreement. The Hospital is required to pay an annual fixed management fee of \$300,000 adjusted every two years as defined in the lease. Fee expense for the management agreement was \$300,000 and \$108,929 for the years ended June 30, 2008 and 2007.

The following is a schedule by year of future minimum lease payments (including associated management agreement) under operating leases as of June 30, 2008:

| | |
|-------------|---------------------|
| 2009 | \$ 1,090,229 |
| 2010 | 890,619 |
| 2011 | 875,595 |
| 2012 | 684,222 |
| 2013 | 353,616 |
| 2014 – 2018 | 1,768,080 |
| 2019 – 2020 | <u>417,488</u> |
| Total | <u>\$ 6,079,849</u> |

(11) Concentration of Credit Risk

The Hospital grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

| | <u>2008</u> | <u>2007</u> |
|----------------------------|-------------|-------------|
| Medicare | 35% | 33% |
| Medicaid | 13 | 5 |
| Blue Cross | 16 | 21 |
| Other commercial insurance | 18 | 25 |
| Private pay | <u>18</u> | <u>16</u> |
| | <u>100%</u> | <u>100%</u> |

Dallas County Hospital

Notes to Financial Statements June 30, 2008 and 2007

(12) Spring Valley, Inc.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that Spring Valley is a component unit of the Hospital. Spring Valley is considered to be a component unit of the Hospital based upon the significance of the related financial obligations with the Hospital. Spring Valley's audited statement of financial position, statement of activities and statement of cash flows of and for the years ended June 30, 2008 and 2007 are included on pages 13 - 15.

Spring Valley constructed a senior housing facility on the campus of the Hospital (the Spring Valley Project (Project)). Included in the Project is a limited guarantee agreement by the Hospital with Bankers Trust Company, N.A. (the Trustee). The agreement provides that the Hospital would replenish Spring Valley's Debt Service Reserve Fund (Fund) up to its required amount (approximately \$389,000) if funds from the Project are insufficient to maintain the Fund at the required amount. The obligations of the Hospital under the agreement will remain in effect until the date on which the entire principal and interest on the bonds is provided for.

The Hospital has included transfers to Spring Valley of \$38,913 and \$392,007 for the years ended June 30, 2008 and 2007, respectively, in the statements of revenue, expenses and changes in net assets. These amounts are related to capital advances and unreimbursed services provided by the Hospital to Spring Valley.

In addition, the Hospital provided a \$500,000 loan to Spring Valley which will be repaid as funds become available. This amount is included in long-term debt of Spring Valley found on page 13. During 2006, the Hospital established an allowance for uncollectible amounts of \$500,000 related to the receivable above due to the continued financial losses of Spring Valley.

(13) Foundation

On July 1, 2006, Dallas County Hospital Foundation, Inc. (Foundation) was established to raise funds to support Dallas County Hospital, Perry, Iowa (Hospital). The Foundation is governed by a Board of Directors independent of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB Statement 39. The Foundation's unaudited net assets were approximately \$28,032 at June 30, 2008. The Foundation transferred \$31,786 and \$7,348 as of June 30, 2008 and 2007, respectively, for the purchase of building construction, property and equipment.

Dallas County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis) Required Supplementary Information June 30, 2008 and 2007

The following is a reconciliation between reported amounts and cash disbursements to budget:

| | Actual Accrual Basis | Accrual Adjustments | Actual Cash Basis | Budgeted Amounts | | Variance Favorable (Unfavorable) |
|---------------------------------------|----------------------------|------------------------|-------------------------|------------------|------------|--|
| | | | | Original | Amended | |
| Amount to be raised by taxation | \$ 1,629,063 | 58,543 | 1,687,606 | 1,653,695 | 1,653,695 | 33,911 |
| Estimated other revenue / receipts | 19,101,562 | 3,524,302 | 22,625,864 | 17,166,292 | 17,166,292 | 5,459,572 |
| Total | 20,730,625 | 3,582,845 | 24,313,470 | 18,819,987 | 18,819,987 | 5,493,483 |
| Expenses / Disbursements | 16,795,934 | 416,312 | 17,212,246 | 18,035,414 | 18,035,414 | 823,168 |
| Net | 3,934,691 | 3,166,533 | 7,101,224 | 784,573 | 784,573 | \$ 6,316,651 |
| Balance beginning of year | 12,898,268 | (8,159,522) | 4,738,746 | 6,339,723 | 6,339,723 | |
| Balance end of year | \$ 16,832,959 | (4,992,989) | 11,839,970 | 7,124,296 | 7,124,296 | |

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

Dallas County Hospital

Exhibit 1

Patient Service Revenue For the Years Ended June 30, 2008 and 2007

| | 2008 | | | | 2007 | | | |
|--------------------------------------|---------------------|-------------------|------------------|-------------------|----------------|-------------------|----------------|-------------------|
| | Inpatient | Outpatient | Swing Bed | Total | Inpatient | Outpatient | Swing Bed | Total |
| NURSING SERVICES: | | | | | | | | |
| Medical/surgical | \$ 767,205 | 66,475 | -- | 833,680 | 438,620 | 60,175 | -- | 498,795 |
| Swing bed | -- | -- | 732,640 | 732,640 | -- | -- | 475,043 | 475,043 |
| | <u>767,205</u> | <u>66,475</u> | <u>732,640</u> | <u>1,566,320</u> | <u>438,620</u> | <u>60,175</u> | <u>475,043</u> | <u>973,838</u> |
| OTHER PROFESSIONAL SERVICES: | | | | | | | | |
| DCH outpatient surgery | -- | 15,751,136 | -- | 15,751,136 | -- | 4,616,576 | -- | 4,616,576 |
| Pharmacy | 310,234 | 1,586,608 | 194,686 | 2,091,528 | 153,073 | 1,354,788 | 136,662 | 1,644,523 |
| Operating room | 37,481 | 1,871,967 | -- | 1,909,448 | 35,845 | 1,686,364 | -- | 1,722,209 |
| Emergency department | 30,782 | 1,575,939 | -- | 1,606,721 | 27,368 | 1,459,744 | -- | 1,487,112 |
| Laboratory | 136,406 | 1,274,244 | 33,317 | 1,443,967 | 80,914 | 869,308 | 21,927 | 972,149 |
| CT scans | 95,737 | 1,312,814 | 13,058 | 1,421,609 | 30,615 | 1,077,416 | 9,340 | 1,117,371 |
| Physical therapy | 9,499 | 931,427 | 140,943 | 1,081,869 | 4,314 | 830,823 | 83,889 | 919,026 |
| Radiology | 13,205 | 861,788 | 5,922 | 880,915 | 9,347 | 728,096 | 3,152 | 740,595 |
| Emergency physicians | 12,283 | 675,731 | -- | 688,014 | 7,905 | 616,133 | -- | 624,038 |
| Mobile MRI | 9,057 | 390,547 | -- | 399,604 | 11,257 | 395,777 | -- | 407,034 |
| Cardiopulmonary | 139,518 | 162,943 | 65,306 | 367,767 | 56,140 | 144,237 | 33,829 | 234,206 |
| Ultrasonounds | 12,080 | 343,899 | 2,535 | 358,514 | 6,670 | 278,682 | 1,696 | 287,048 |
| Intravenous therapy | 47,420 | 154,292 | 16,269 | 217,981 | 28,959 | 67,377 | 6,571 | 102,907 |
| Occupational therapy | 3,139 | 130,264 | 67,346 | 200,749 | 833 | 135,590 | 41,736 | 178,159 |
| Anesthesia | 7,000 | 174,100 | 800 | 181,900 | 10,650 | 193,300 | 200 | 204,150 |
| Echocardiology | 13,614 | 142,791 | 5,050 | 161,455 | 8,338 | 110,571 | 1,191 | 120,100 |
| Sleep studies | -- | 152,972 | -- | 152,972 | -- | 141,625 | -- | 141,625 |
| Electrocardiology | 8,920 | 102,776 | 1,417 | 113,113 | 5,900 | 82,458 | 600 | 88,958 |
| Nuclear medicine | -- | 34,164 | 1,726 | 35,890 | -- | 50,019 | -- | 50,019 |
| Speech therapy | 5,364 | 16,919 | 12,868 | 35,151 | 1,934 | 14,384 | 5,779 | 22,097 |
| Transfusion services | 7,500 | 13,750 | 1,000 | 22,250 | 1,250 | 6,175 | -- | 7,425 |
| Corp wellness | -- | 20,679 | -- | 20,679 | -- | 24,263 | -- | 24,263 |
| Bone density | -- | 19,478 | -- | 19,478 | -- | 21,175 | -- | 21,175 |
| Treadmills | -- | 12,600 | -- | 12,600 | -- | 15,840 | -- | 15,840 |
| Dietician | -- | 3,234 | -- | 3,234 | -- | 2,692 | -- | 2,692 |
| | <u>899,239</u> | <u>27,717,062</u> | <u>562,243</u> | <u>29,178,544</u> | <u>481,312</u> | <u>14,923,413</u> | <u>346,572</u> | <u>15,751,297</u> |
| GROSS PATIENT SERVICE REVENUE | <u>\$ 1,666,444</u> | <u>27,783,537</u> | <u>1,294,883</u> | <u>30,744,864</u> | <u>919,932</u> | <u>14,983,588</u> | <u>821,615</u> | <u>16,725,135</u> |

LESS:
Contractual allowances and other deductions,
primarily Medicare and Medicaid
Charity care services and other
discounts, based on charges forgone

\$ (10,742,847)

(294,204)

(3,490,928)

(227,768)

NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT

\$

19,707,813

13,006,439

PROVISION FOR BAD DEBT

(1,031,104)

(667,483)

NET PATIENT SERVICE REVENUE

\$

18,676,709

12,338,956

Other Operating Revenue
For the Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|-----------------------------|-------------------|----------------|
| South addition maintenance | \$ 97,058 | 96,400 |
| Nutritional service | 48,196 | 78,507 |
| Other | 39,242 | 43,730 |
| Vendor discounts/rebates | 19,346 | 14,075 |
| Grant revenue | 9,562 | 48,063 |
| Medical records transcripts | 9,253 | 8,434 |
| Dietary instruction | <u>1,350</u> | <u>519</u> |
| | <u>\$ 224,007</u> | <u>289,728</u> |

Dallas County Hospital

Exhibit 3

Departmental Expenses

For the Years Ended June 30, 2008 and 2007

| | 2008 | | | | 2007 | | | |
|-------------------------------------|--------------------|-------------------|--------------------|------------|--------------------|-------------------|--------------------|------------|
| | Salaries and Wages | Professional Fees | Supplies and Other | Total | Salaries and Wages | Professional Fees | Supplies and Other | Total |
| NURSING SERVICES: | | | | | | | | |
| Medical/surgical | \$ 750,800 | -- | 88,691 | 839,491 | 755,106 | 197 | 52,739 | 808,042 |
| Nursing administration | 149,493 | -- | 2,300 | 151,793 | 91,496 | -- | 2,155 | 93,651 |
| | 900,293 | -- | 90,991 | 991,284 | 846,602 | 197 | 54,894 | 901,693 |
| OTHER PROFESSIONAL SERVICES: | | | | | | | | |
| DCH outpatient surgery | 507,218 | 616,246 | 2,982,700 | 4,106,164 | 181,085 | 290,127 | 1,070,691 | 1,541,903 |
| Emergency department | 595,127 | 649,996 | 53,292 | 1,298,415 | 465,525 | 629,525 | 53,270 | 1,148,320 |
| Pharmacy | 23,904 | 200,713 | 643,272 | 867,889 | 20,494 | 188,722 | 509,475 | 718,691 |
| Laboratory | 207,074 | 5,299 | 359,059 | 571,432 | 153,998 | 172,597 | 326,848 | 653,443 |
| Radiology | 10,591 | 377,059 | 80,435 | 468,085 | 197,960 | 76,068 | 46,633 | 320,661 |
| Physical therapy | -- | 432,955 | 7,867 | 440,822 | -- | 367,640 | 13,873 | 381,513 |
| Operating room | 161,616 | 8,385 | 190,139 | 360,140 | 155,096 | -- | 198,255 | 353,351 |
| Cardiopulmonary | 162,151 | 6,000 | 33,735 | 201,886 | 158,872 | 3,020 | 26,356 | 188,248 |
| Specialty clinic - South addition | 27,166 | -- | 117,600 | 144,766 | 22,177 | -- | 5,028 | 27,205 |
| Anesthesia | -- | 100,210 | 5,626 | 105,836 | -- | 112,283 | -- | 112,283 |
| CT scans | -- | -- | 103,464 | 103,464 | -- | -- | 110,658 | 110,658 |
| Occupational therapy | -- | 80,299 | 345 | 80,644 | -- | 71,264 | 179 | 71,443 |
| Echocardiology | -- | 77,921 | -- | 77,921 | -- | 55,377 | -- | 55,377 |
| Mobile MRI | -- | 66,300 | -- | 66,300 | -- | 67,600 | -- | 67,600 |
| Sleep studies | -- | 46,575 | -- | 46,575 | -- | 42,525 | -- | 42,525 |
| Education | 21,538 | -- | 5,880 | 27,418 | 56,866 | 395 | 24,289 | 81,550 |
| Ultrasonounds | -- | 5,640 | 11,448 | 17,088 | -- | 18,990 | 8,773 | 27,763 |
| Nuclear medicine | -- | 15,447 | -- | 15,447 | -- | 21,743 | -- | 21,743 |
| Speech therapy | -- | 14,060 | -- | 14,060 | -- | 8,839 | -- | 8,839 |
| Electrocardiology | -- | 5,575 | 656 | 6,231 | -- | 5,865 | 922 | 6,787 |
| Auxiliary/Foundation coordinator | -- | -- | 109 | 109 | 10,334 | -- | 376 | 10,710 |
| Social services | -- | -- | 54 | 54 | 7,539 | -- | 55 | 7,594 |
| Volunteer coordinator | -- | -- | -- | -- | 7,235 | -- | 15 | 7,250 |
| | 1,716,385 | 2,708,680 | 4,595,681 | 9,020,746 | 1,437,181 | 2,132,580 | 2,395,696 | 5,965,457 |
| GENERAL SERVICES: | | | | | | | | |
| Facility | 175,236 | 131,586 | 828,960 | 1,135,782 | 136,348 | 113,865 | 812,211 | 1,062,424 |
| Nutritional services/dietician | 163,155 | 3,571 | 102,591 | 269,317 | 141,291 | 896 | 108,673 | 250,860 |
| Environmental services | 123,264 | 78,632 | 24,445 | 226,341 | 121,392 | 61,749 | 22,525 | 205,666 |
| | 461,655 | 213,789 | 955,996 | 1,631,440 | 399,031 | 176,510 | 943,409 | 1,518,950 |
| ADMINISTRATIVE SERVICES | | | | | | | | |
| | 1,191,001 | 749,053 | 771,394 | 2,711,448 | 991,632 | 702,422 | 543,421 | 2,237,475 |
| NONDEPARTMENTAL: | | | | | | | | |
| Depreciation and amortization | -- | -- | 1,200,245 | 1,200,245 | -- | -- | 1,159,418 | 1,159,418 |
| Employee benefits | -- | -- | 860,479 | 860,479 | -- | -- | 945,391 | 945,391 |
| Insurance | -- | -- | 198,104 | 198,104 | -- | -- | 175,806 | 175,806 |
| Interest | -- | -- | 182,188 | 182,188 | -- | -- | 194,949 | 194,949 |
| | -- | -- | 2,441,016 | 2,441,016 | -- | -- | 2,475,564 | 2,475,564 |
| TOTAL EXPENSES | \$ 4,269,334 | 3,671,522 | 8,855,078 | 16,795,934 | 3,674,446 | 3,011,709 | 6,412,984 | 13,099,139 |

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2008 and 2007**

ANALYSIS OF AGING:

| Days Since Discharge | 2008 | | 2007 | |
|---------------------------------------|---------------------|------------------|------------------|------------------|
| | Amount | Percent of Total | Amount | Percent of Total |
| 0 - 30 | \$ 2,229,844 | 46.79 % | 2,100,378 | 60.45 |
| 31 - 60 | 912,497 | 19.14 | 627,689 | 18.07 |
| 61 - 90 | 412,025 | 8.64 | 287,835 | 8.28 |
| 91 - 120 | 211,495 | 4.44 | 172,134 | 4.96 |
| > 120 | 1,000,965 | 20.99 | 286,271 | 8.24 |
| | <u>4,766,826</u> | 100.00 % | <u>3,474,307</u> | 100.00 |
| Less: | | | | |
| Allowance for doubtful accounts | (692,866) | | (334,720) | |
| Allowance for contractual adjustments | <u>(1,001,670)</u> | | <u>(892,175)</u> | |
| | <u>\$ 3,072,290</u> | | <u>2,247,412</u> | |

| | 2008 | 2007 |
|--|-------------------|------------------|
| NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE | 55.30 days | 63.07 days |
| ALLOWANCE FOR DOUBTFUL ACCOUNTS: | | |
| Balance, beginning of year | \$ 334,720 | 265,083 |
| Provision of uncollectible accounts | 1,031,104 | 667,483 |
| Recoveries of accounts previously written off | 183,314 | 175,101 |
| Accounts written off | <u>(856,272)</u> | <u>(772,947)</u> |
| Balance, end of year | <u>\$ 692,866</u> | <u>334,720</u> |

Inventory/Prepaid Expenses
For the Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|-------------------------------|-------------------|----------------|
| INVENTORY: | | |
| DCH outpatient surgery | \$ 266,414 | 174,006 |
| Departmental | 127,029 | 127,147 |
| Pharmacy | 86,615 | 91,978 |
| General stores/central supply | 39,214 | 33,962 |
| Dietary | <u>8,957</u> | <u>9,896</u> |
| | <u>\$ 528,229</u> | <u>436,989</u> |
| PREPAID EXPENSES: | | |
| Insurance | \$ 53,052 | 53,336 |
| Other | <u>69,404</u> | <u>29,339</u> |
| | <u>\$ 122,456</u> | <u>82,675</u> |

**Insurance Coverage
For the Years Ended June 30, 2008 and 2007**

| Company | Property Covered | Amount of Coverage | Expiration Date |
|----------------------------------|---|--------------------|-----------------|
| PIC Wisconsin | General Liability | | 5/1/2009 |
| | Each Occurrence - Bodily Injury and Property Damage | 1,000,000 | |
| | Aggregate | 3,000,000 | |
| | Products and Completed Operations | 1,000,000 | |
| | Personal and Advertising Injury | 1,000,000 | |
| | Employee Benefits Liability Limit | 1,000,000 | |
| | Damage to Premises Rent to You Limited | 1,000,000 | |
| | Medical Expense | 10,000 | |
| | Pollution Liability Limit | 250,000 | |
| PIC Wisconsin | Hospital Professional Liability (claims made basis) | | 5/1/2009 |
| | Per Professional Health Care Incident | 1,000,000 | |
| | Aggregate | 3,000,000 | |
| | Legal Expense (not Defense Costs) | 10,000 | |
| PIC Wisconsin | Commercial Umbrella | | 5/1/2009 |
| | Each Occurrence | 4,000,000 | |
| | Aggregate | 4,000,000 | |
| | Products and Completed Operations | 4,000,000 | |
| PIC Wisconsin | Excess Professional Liability (claims made basis) | | 5/1/2009 |
| | Per Professional Health Care Incident | 5,000,000 | |
| | Aggregate | 5,000,000 | |
| Great Northern Insurance Company | Commercial Property | | 5/1/2009 |
| | Buildings & Personal Property | 19,929,436 | |
| | Business Income with Extra Expense | 8,113,000 | |
| | Data Processing | 627,500 | |
| | Crime | 107,500 | |
| | Various Other Property Coverage | 6,500 | |
| Federal Insurance Company | Auto Bodily Injury & Property Damage Liability | 1,000,000 | 5/1/2009 |
| | Medical Payments | 10,000 | |
| | Un/Underinsured Motorist | 1,000,000 | |
| Executive Risk Indemnity | Directors & Officers Liability | 5,000,000 | 5/1/2009 |
| Farm Bureau Mutual Insurance | Worker's Compensation Liability | | 4/1/2009 |
| | Each Accident | 500,000 | |
| | Disease Policy Limit | 500,000 | |
| | Disease Each Employee | 500,000 | |

Financial and Statistical Highlights
For the Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Patient days: | | |
| Acute | 1,177 | 703 |
| Swingbed | 1,260 | 871 |
| Respite | <u>23</u> | <u>16</u> |
| Total | <u><u>2,460</u></u> | <u><u>1,590</u></u> |
| Patient discharges: | | |
| Acute | 334 | 232 |
| Swingbed | 135 | 93 |
| Respite | <u>8</u> | <u>4</u> |
| Total | <u><u>477</u></u> | <u><u>329</u></u> |
| Average length of stay: | | |
| Acute | 3.52 days | 3.03 days |
| Swingbed | 9.33 days | 9.37 days |
| Respite | 2.88 days | 4.00 days |
| Emergency room visits | 6,405 | 5,849 |
| Specialty clinic visits | 3,791 | 3,115 |
| DCH outpatient surgery visits | 3,786 | 1,110 |
| Other outpatient visits | 18,271 | 16,015 |
| Number of hospital employees - full-time equivalents | 97.34 | 91.04 |

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Trustees of
Dallas County Hospital
Perry, Iowa:

We have audited the basic financial statements of Dallas County Hospital (Hospital), as of and for the year ended June 30, 2008, and have issued our report thereon dated October 21, 2008. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have

had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Hospital in a separate letter dated October 21, 2008.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Dallas County Hospital, and other parties to whom Dallas County Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Scim, Johnson Sostk's Out, LCT

Omaha, Nebraska,
October 21, 2008.

Dallas County Hospital

Schedule of Findings and Questioned Costs June 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE: No matters were reported.

SIGNIFICANT DEFICIENCY: No significant deficiencies were identified.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-08 Certified Budget: Hospital disbursements during the year ended June 30, 2008 did not exceed budgeted amounts.
- III-B-08 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2008.
- III-C-08 Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-08 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-08 Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.
- III-F-08 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-08 Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.
- III-H-08 Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor.

Dallas County Hospital

Audit Staff
June 30, 2008

This audit was performed by:

- Roger E. Thompson, FHFMA, CPA, Partner
- Robin A. Matthes, CPA, Manager
- Becky S. Hoffman, Staff Auditor
- Chase S. Manstedt, Staff Auditor